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IV

INDONESIA: Diplomatic Setback

EVENT: Indonesia has failed to win the chairmanship of the Non-Aligned Movement.

SIGNIFICANCE: The diplomatic setback will heighten existing tensions between civilian and military elements within the Suharto government. This could shift the political balance of power in Jakarta.

ANALYSIS: Over the past 15 years, Indonesia has made three attempts to win the chairmanship of the Non-Aligned Movement (NAM), which it helped to found in the mid-1950s. The Suharto Government has long craved international recognition for its achievement in bringing economic progress and social stability to its vast archipelagic nation after the political traumas of 1965-66. However, on all three occasions, most recently at Harare in 1986, its bid for the NAM leadership was wrecked by its bloody record in the former Portuguese colony of East Timor.

East Timor was invaded by Indonesian troops in December 1975 to prevent the consolidation of an independent East Timorese government. In the ensuing conflict, upwards of a third of the territory's population of 680,000 were massacred by Indonesian troops and large areas were devastated by aerial bombardment, which included the use of napalm and chemical defoliants. The grave human rights abuses and continuing military rule in East Timor have brought Indonesia international criticism, particularly from African countries such as Angola, Mozambique and Guinea-Bissau, which were themselves once Portuguese colonies.

Although the influence of these states had hitherto been critical in denying Indonesia the NAM leadership, Jakarta had high hopes of securing the 1989-92 chairmanship at the recent Cyprus meeting (5-10 September). The new Indonesian Foreign Minister, Ali Alatas, is widely respected in international circles, and there have been well-publicised discussions within Indonesia about the status of East Timor, in particular the need to end direct military rule there. However the vote went neither to Indonesia nor its main rival Nicaragua but to Yugoslavia.

This fourth setback is likely to have important domestic repercussions. Since the formation of the Fifth Development Cabinet in March, a growing debate has taken place between the moderates, in particular the civilian ministers (including Alatas), who are keen to open out the political system to greater public participation, and the military hard-liners (in particular Defence Minister Murdani), who fear that such an opening will jeopardise the country's hard-won stability. In this political battle,

the issue of East Timor, especially the question of whether it should be opened to free access from other parts of Indonesia, has assumed particular prominence. Up to now only those with special military passes have been allowed to enter.

The civilian Governor of East Timor, Mario Carrascalao, has called on Jakarta to permit free access in order to relieve acute unemployment within the territory, and his appeal has been taken up inter alia by the Interior Minister, General Rudini, a military moderate. However, Murdani has so far refused to countenance the move. He argues that it would undermine the military's ability to ensure local security within the province, which is constantly under threat from the FRETILIN (Revolutionary Front for the Liberation of East Timor). FRETILIN is thought to have 500-1,000 armed guerrillas confronting an Indonesian garrison force of 15,000.

Murdani's conduct of the East Timor campaign has cost him a lot of support. Civilian politicians and officials of the Indonesian Foreign Office deplore the effect the issue has had on the country's international reputation. Senior army officers feel that the honour of the army has been compromised by its poor showing in the East Timor conflict.

Murdani has already seen his power base within the regime sharply eroded earlier this year when he was abruptly retired as Armed Forces Commander and moved to the less influential position of Defence Minister (see OADB, February 11, 1988, II). Now that the East Timor issue has once again stymied Indonesia's bid for international prominence, Murdani's position is bound to be further weakened. He has tried to regain some of his lost influence by supporting the current campaign to root out supposed 'communist' elements within the government and civil service, but this is now generally recognised to have become something of an embarrassment to Suharto.

Murdani's erstwhile patron, Suharto, has so far maintained a discreet distance from rivalries between the civilians and the military hard-liners. His personal relationship with Murdani has deteriorated sharply over the past six months, since Murdani complained about the corrupt activities of the President's family. Murdani is unlikely to be jettisoned completely if only because, as the former head of the Indonesian intelligence services, he has too much dangerous knowledge at his disposal.

CONCLUSION: While Suharto remains at the helm it is unlikely that there will be any real change in the character of the New Order regime.

Keywords: AP, Indonesia, politics, military, rebellion, guerrillas, foreign policy, regional

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IV

INDONESIA: Oil Price Fall

SUBJECT: Implications of lower oil prices.

SIGNIFICANCE: The recent oil price collapse will have major repercussions on the Indonesian economy and could cause political difficulties for the Suharto regime.

ANALYSIS: Much of Indonesia's economic growth after 1973 was underpinned by the fourfold increase in its oil and gas revenues, but these have been declining steadily in real terms since 1983. In fiscal 1987/8 non-oil and gas exports -- principally plywood, textiles and farm products -- outstripped earnings from the hydrocarbon sector for the first time since Suharto took power in 1967. Out of total export earnings of US$17.8 billion, the non-oil and gas component accounted for $9.2 billion, a 34% increase over fiscal 1986-7.

This reduction in the country's dependence on the hydrocarbon sector is in line with IMF and World Bank guidelines, and is viewed by most economists as a healthy development. However, although the hydrocarbon sector has declined in relative importance, it remains a major source of revenue for the government and enables it to maintain its creditworthiness as a debtor nation. Last year, for example, the $6.8 billion earned from oil and gas sales enabled the government to cover its debt service obligations on its $42 billion debt, out of a total disbursed government and commercial debt of $51 billion.

The price of oil also remains a major budgetary consideration for the government. This year the government based its calculations on an average oil price of $16.35 a barrel, which it thought erred on the side of caution. Indeed, most official reports, for instance by the IMF and World Bank, on the prospects for the Indonesian economy have taken $18.50 as the average benchmark price for Indonesian crude during the next five years. This will see the implementation of Indonesia's Fifth Five-Year Development Plan which begins officially in March 1989. During this period Indonesian GDP is scheduled to grow by 5% per annum (3.2% in real terms), the current account deficit to be reduced from the present $2 billion to about $400 million, and the debt service ratio to decline from the present 37.1% to 28.9% in 1993/4 (on a total projected disbursed debt of $55 billion) as a result of a steady improvement in oil and non-oil export revenues.

This is the period during which Indonesia is supposed to be preparing itself for the 'self-sustained economic take-off' of the mid-1990s, heading for the status of Newly Industrialised Country (NIC). Suharto sets great store by this because he is anxious to justify his title as the 'Father of Indonesian Development'.

The recent oil price collapse, if sustained, is likely to place all these plans in jeopardy. As of mid-September, Indonesian Minas Marker crude was trading on oil spot markets at least four dollars below its $17.56 benchmark price, a fall which could deprive the government of over $1.5 billion in revenue. Furthermore, because of a decline in seismic and drilling activities by foreign firms (see OADB, October 18, 1987, II) and rising domestic demand for oil (see OADB, March 11, 1988, IV), Indonesia faces the possibility of becoming a net oil importer by the first decade of the next century unless major new fields are brought into production. Current output levels are running at between 1.2 and 1.3 million barrels per day.

The consequences of a sustained oil price collapse for the Indonesian economy could therefore be extremely serious:

-- Lower prices will increase the government's dependence on foreign borrowing in order to sustain development and growth momentum. Since Indonesian exports are denominated in dollars, whilst 40% of Indonesian debt is denominated in yen, the appreciating yen has exacerbated the problems arising from the falling oil price. There is the danger of a ballooning national debt, which some observers estimate could reach $70 billion by 1993/4. This would force Jakarta to seek debt rescheduling, which the Suharto Government has always sought to avoid.

-- Indonesia will become more dependent on Japan, which is already the country's largest creditor. This could have unfortunate political consequences for the Suharto regime, especially if it is perceived to be placing the country in a client relationship. Fourteen years ago the government had to face major anti-Japanese riots, which also took on an anti-government character, at the time of Prime Minister Tanaka's visit to Indonesia.

-- The government is likely to face even greater pressure to continue deregulating the economy in order to boost non-oil exports and stimulate the nascent manufacturing sector. The government has pushed through five deregulatory packages in the past two years and a sixth is expected soon. But these have yet to dismantle the lucrative monopolies enjoyed by the President's family and their business cronies, especially in key upstream industries such as plastics and tinplate, which have contributed directly to the current 'high-cost' domestic economy.

-- A downturn in domestic economic activity due to reduced government spending, which still accounts for over 55% of domestic investment and employment, will make it more difficult to find jobs for the two million people coming onto the job market every year. Already